

CMP: INR 1,494

Rating: Accumulate

Target Price: INR 1,705

Stock Info	
BSE	500209
NSE	INFY
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (INR)	5
Equity Capital (INR Cr)	2,098
Mkt Cap (INR Cr)	6,20,491
52w H/L (INR)	1620 / 1215
Avg Yearly Vol (in 000')	3196

Shareholding Pattern %

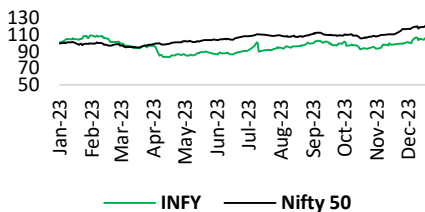
(As on Dec, 2023)

Promoters	14.89
FII	33.6
DII	35.46
Public & Others	16.05

Stock Performance (%)

	1m	3m	12m
INFY	0.82	-1.18	2.01
Nifty	3.37	9.56	20.21

INFY Vs Nifty



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Infosys (INFY) reported below our estimates on the revenue front but improvement in the margin as compared to the estimate and the revenue guidance tightens for FY24. Growth guidance to 1.5%-2.0% From 1%-2.5% in constant currency led by high furlough (Impact -1% cc) and delays in the decision making. Maintained Operating margin of 20%-22% led by cost optimization. Constant currency (CC) revenue growth is down 1.0% YoY & QoQ. Dollar-term Revenue de-growth +0.8% YoY/-1.2% QoQ to \$4,663 mn below our estimate of \$4,690 mn. Reported revenue of INR 38,821 Cr (-0.4% QoQ/+1.3% YoY) against our estimate of INR 39,092 Cr. Vertical and geo performance: Financial (down 5.9% CC YoY), retail (0.4%), communication (-8% YoY in cc), ENU (+0.3% YoY in cc) and manufacturing (+10.6% YoY in cc). Americas (-4.9% in cc YoY) and Europe (+5.0% YoY in cc). EBIT margin was down 71bps QoQ/down by 100bps YoY at 20.5% against our estimates of 20.26%. The company continued the recent trend, attrition declined by 170bps QoQ to 12.9%. Headcount declined by 1.9% QoQ; Utilization ex trainee improved by 90 bps QoQ to 82.7%. Consolidated PAT stood at INR 6,106 Cr, down by 7.3% YoY/-1.7% QoQ below our estimate of INR 6,198 Cr. Large deal TCV for the quarter was \$3.2 billion, with 71% being net new spread across all verticals and geographies. DSO days increased by 5 days QoQ to 72. The company has acquired in Semi, a leading semiconductor design and embedded services provider for INR 280 crore. FCF at INR 5,548 cr, growth of 17.0% YoY; FCF conversion at 90.8% of net profit in Q3FY24.

Cautiously Optimistic on the medium-Term Outlook: The company has observed consistent client behavior, especially considering that Q3 is characterized by significant furloughs and end-of-year holidays. This trend continues as usual, with no notable increase or decrease in activity. The outlook remains steady.

Traction on the Gen AI: In terms of digital programs, there is a noticeable emphasis on cost-effectiveness, and automation has gained significant momentum. Generative AI has garnered considerable interest and traction, even though the revenue generated in Q3FY24 may be relatively modest.

Valuations

Infosys (INFY) reported below our estimates numbers on the revenue front, yet exhibited margin improvement, leading to a revised and more focused revenue guidance for FY24. In the near term, there is no observed shift in client behavior, given the prevailing uncertainty in the macroeconomic environment. Pricing, at the portfolio level, remains broadly stable. As a result, growth estimates for FY24E and FY25E have been increased by 1.2% and 2.8%, respectively. In USD terms, anticipated growth of 2.4% is expected for FY26E, with a projected margin of 21.3%/21.5%/21.6% for FY24E/FY25E/FY26E. **We value Infosys at a PE of 25x its FY26E EPS of INR 68.2 with the target price of INR 1,705 per share (earlier TP in INR 1,351 per share). We upgrade our rating to an Accumulate from Reduce earlier on the stock.**

Exhibit 1: Financial (Consolidated)

Y/E March (INR. In Cr)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	18,181	18,707	19,615	20,081
Net Revenue	1,46,767	1,53,055	1,61,825	1,70,769
EBIT	30,905	32,601	34,792	36,886
EBIT Margin (%)	21.1%	21.3%	21.5%	21.6%
Net Profit	24,095	25,056	26,629	28,236
EPS (INR)	58.2	60.5	64.3	68.2
P/E (x)	25.7	24.7	23.2	21.9
ROE	31.8%	27.0%	24.0%	21.6%

Source: Arihant Research, Company Filings

Exhibit 2: Q3FY24 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	4,663	4,718	4,628	-1.2%	0.8%
Net Revenue	38,821	38,994	38,318	-0.4%	1.3%
Cost of Sales	27,253	27,031	26,561	0.8%	2.6%
Gross Profit	11,568	11,963	11,757	-3.3%	-1.6%
S&M and Admin. Expenses	3,607	3,689	3,515	-2.2%	2.6%
EBIT	7,961	8,274	8,242	-3.8%	-3.4%
EBIT margin %	20.5%	21.2%	21.5%	-71bps	-100bps
Other Income	658	494	689	33.2%	-4.5%
PBT	8,619	8,768	8,931	-1.7%	-3.5%
Tax Expense	2,506	2,553	2,345	-1.8%	6.9%
Effective tax rate %	29.1%	29.1%	26.3%	-4bps	282bps
Reported PAT	6,113	6,215	6,586	-1.6%	-7.2%
MI & Associates	-7	-3	-		
Consolidated PAT	6,106	6,212	6,586	-1.7%	-7.3%
Adj PAT Margin %	15.7%	15.9%	17.2%	-1.3%	-8.5%
EPS (INR)	14.8	15.0	15.7	-1.7%	-6.0%

Q3FY24 Concall Highlights

The company continues to gain market share and strengthen its position through capabilities in cost optimization, efficiency, automation, and leveraging generative AI, digital, and cloud. The company is working with global clients, including a bank for risk analysis, a food supplier for personalized experiences, and a retail company for an AI-first business transformation.

Budget: The company has not observed any alterations in the budget scenario, as the decision is still pending closure.

Pricing: Improved pricing and a focus on value-based selling contribute to a more stable pricing regime, reflecting various strategic initiatives.

Margin: in Q2FY24, 20.5% better than estimate led by the sustained emphasis on cost reduction, consolidation. There are headwinds of 130bps, comprising of 70 bps on salary increases effective 1st November, 60bps from McCamish cyber incidents, which had an impact on both revenue and cost. This was partially offset. There are tailwinds of 60bps, comprising of 50bps benefit from cost optimization, including high utilization and lower S&M admin expens, 10bps from currency movement.

Geography: The company experienced substantial growth in Europe, but the North American performance was weaker, particularly in terms of the pipeline outcomes.

Order wins: Infosys secured a total of 23 large deals driven by a significant mega deal. The distribution across industries includes 8 deals in Manufacturing, 6 in financial services, 4 in energy utilities resources and services, two each in retail and communication, and 1 in other sectors. Large deals amounted to \$3.2 billion, with 71% being net new, including one mega deal. The total large deal value for the first three quarters reached a record \$13.2 bn, with 55% being net new.

Geographically: The deals were spread with 10 in America, nine in Europe, 3 in the ROW, and 1 in India.

Maximus Project: The company reports steady progress on Project Maximus, a comprehensive margin improvement plan encompassing five fillers and more than 20 tracks. This progress instills confidence in achieving margin expansion over time.

Gen AI: The company is working with global clients, including a bank for risk analysis, a food supplier for personalized experiences, and a retail company for an AI-first business transformation. The company has 100,000 employees trained in generative AI areas.

Exhibit 3: FY24, topline guidance tighten

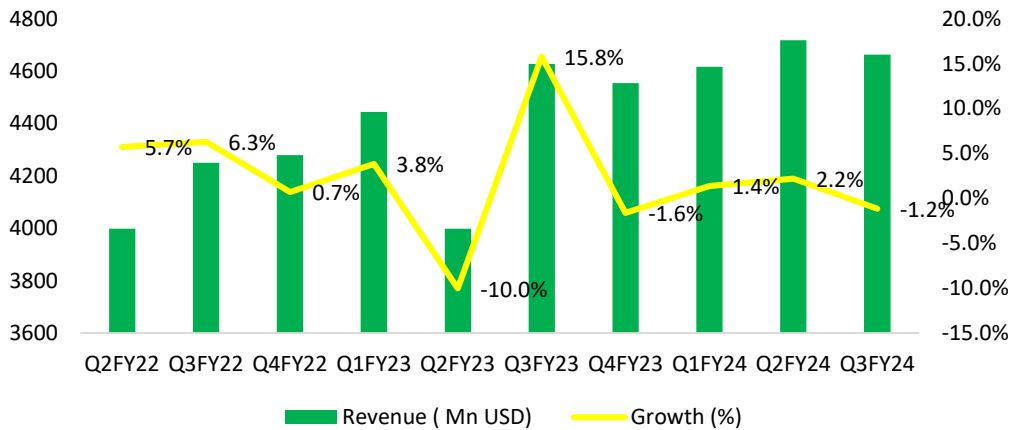


Exhibit 4: Top line below estimate Q3FY24

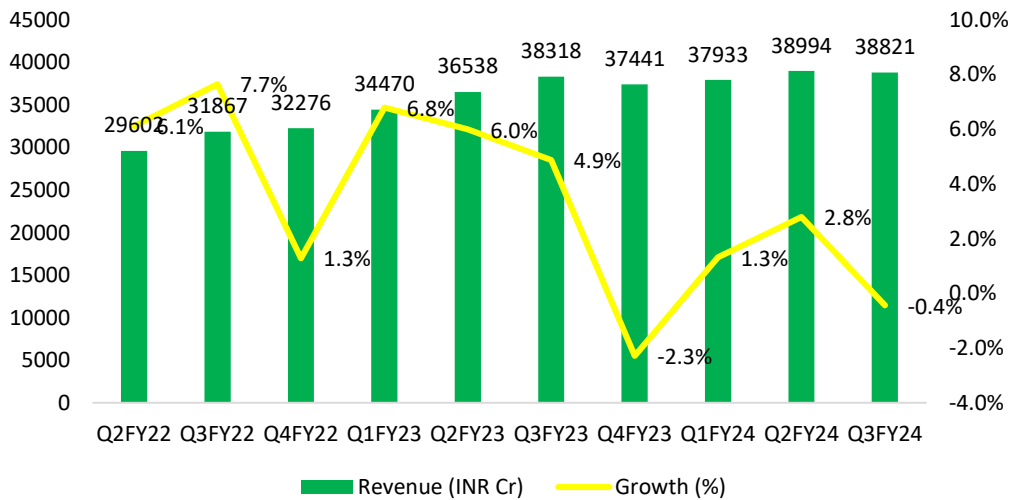
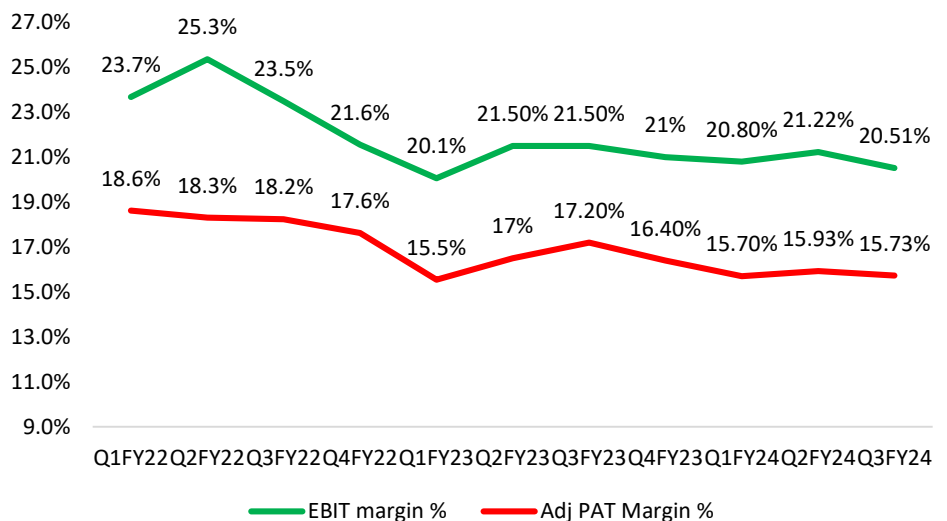


Exhibit :5 Maintained Operating margin of 20%-22% led by cost optimization



Source: Arianth Research, Company Filings

Exhibit 6: Operating Matrics

Employee Metrics	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Employees, period end							
Total Employees (Consolidated)	3,35,186	3,45,218	3,46,845	3,43,234	3,36,294	3,28,764	3,22,663
S/W professionals	3,18,447	3,28,146	3,29,296	3,24,816	3,17,611	3,10,375	3,04,590
Sales & Support	16,739	17,072	17,549	18,418	18,683	18,389	18,073
Women employees (%)	28.4%	27.1%	24.3%	20.9%	39.5%	39.40%	39.30%
Voluntary Attrition % (Annualized - IT Services)	28.4%	27.1%	24.3%	20.9%	17.3%	14.60%	12.90%
Effort (IT Services and Consulting)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Onsite-Offshore Effort Split							
Onsite	24.3%	24.4%	24.5%	24.6%	24.7%	24.6%	24.4%
Offshore	75.7%	75.6%	75.5%	75.4%	75.3%	75.4%	75.6%
Utilization measures							
Including trainees	77.6%	76.6%	77.1%	76.9%	78.9%	80.4%	81.7%
Excluding trainees	84.7%	83.6%	81.6%	80.0%	81.1%	81.8%	82.7%
Revenues by client geography	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
North America	61.8%	62.5%	62.0%	61.0%	60.8%	61.1%	59.0%
Europe	25.0%	24.7%	25.8%	27.0%	26.8%	26.5%	28.2%
ROW	10.6%	9.9%	9.8%	9.4%	9.7%	9.6%	10.4%
India	2.6%	2.9%	2.4%	2.6%	2.7%	2.8%	2.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues by Business segments	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Financial Services	30.60%	30.50%	29.30%	28.90%	28.10%	27.50%	27.80%
Retail	14.50%	14.20%	14.30%	14.80%	14.50%	15.20%	14.60%
Communication	13.00%	12.30%	12.30%	11.80%	11.70%	11.40%	11.40%
Energy, Utilities, Resources and Services	12.40%	12.30%	13.00%	12.90%	12.90%	12.70%	13.20%
Manufacturing	12.10%	12.80%	13.30%	13.50%	14.10%	14.30%	14.90%
Hi Tech	8.20%	8.20%	8.10%	8.00%	8.10%	7.80%	7.70%
Life Sciences	6.50%	6.70%	7.00%	7.20%	7.20%	7.80%	7.60%
Others	2.70%	3.00%	2.70%	2.90%	3.40%	3.30%	2.80%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Client Data	Q1FY23	Q2FY23E	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Number of Clients							
Active	1778	1779	1850	1872	1883	1884	1872
Added during the period (gross)	106	103	134	115	99	100	88
Number of mn dollar clients*							
\$1 mn	877	895	912	922	940	951	944
\$10 mn	278	281	294	298	312	312	308
\$50 mn	69	77	79	75	79	80	82
\$100 mn	38	39	38	41	38	39	40
Client contribution to revenues							
Top 5 clients	13.00%	12.60%	13.10%	13.00%	13.40%	13.30%	13.40%
Top 10 clients	20.80%	20.20%	20.50%	20.10%	20.40%	19.90%	20.00%
Top 25 clients	36.30%	35.30%	35.30%	34.70%	34.60%	34.10%	33.70%
Days Sales Outstanding	63	65	68	62	63	67	72
Revenues (US\$ mn)	4,444	4,555	4,628	4,554	4,617	4,718	4,663
Avg USD-INR rate	75.15	82.00	82.00	82.00	84.00	82.50	83.00

Source: Arianth Research, Company Filings

Key Financials

Profit & Loss Statement (Consolidated)

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	18,181	18,707	19,615	20,081
Growth (%)	11.5%	2.9%	4.9%	2.4%
Income	1,46,767	1,53,055	1,61,825	1,70,769
Growth (%)	20.7%	4.3%	5.7%	5.5%
Software development expenses	1,02,353	1,05,149	1,09,232	1,15,269
Gross Profit	44,414	47,906	52,593	55,500
Sales and development expenses	6,249	7,347	9,386	9,905
General and administrative expenses	7,260	7,959	8,415	8,709
EBIT	30,905	32,601	34,792	36,886
EBIT Margin (%)	21.06%	21.30%	21.50%	21.60%
Finance Cost (Lease expense)	284	210	215	216
Other Income	2,701	2,281	2,266	2,391
Provision for investment/ Shares profit / (Loss)				
PBT	33,322	34,671	36,843	39,061
Tax	9,214	9,535	10,132	10,742
PAT	24,108	25,137	26,711	28,319
Adjusted PAT	24,095	25,056	26,629	28,236
Growth (%)	9.0%	4.0%	6.3%	6.0%
Adjusted EPS	58.2	60.5	64.3	68.2

Balance Sheet (Consolidated)

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
Shareholder's Funds				
Share Capital	2,069	2,070	2,070	2,070
Reserves & Surplus	73,726	90,576	1,08,891	1,28,705
Net Worth	75,795	92,646	1,10,961	1,30,775
Total Non Current Liabilities	10,835	9,492	9,631	9,773
Total Current Liabilities	39,186	42,076	41,099	44,250
Total Liabilities	1,25,816	1,44,213	1,61,691	1,84,798
Net Block	22,343	27,914	33,805	40,021
Capital Work-in-Progress	288	288	288	288
Total Non Current Assets	54,935	60,044	65,474	71,318
Cash and bank balance	12,173	24,163	34,977	48,620
Total Current Assets	70,881	84,169	96,217	1,13,480
Total Assets	1,25,816	1,44,213	1,61,691	1,84,798

Source: Arianth Research, Company Filings

Key Financials

Cash Flow Statement (Consolidated)

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
PAT	24,108	25,137	26,711	28,319
Add:- Depreciation & Others	4,225	3,520	3,236	3,415
Change in Working Capital	-6,344	5,042	3,322	5,368
Cash generated from operations	31,261	35,361	34,858	38,621
Taxes paid	-8,794	-9,535	-10,132	-10,742
Cash flow from operating activities	22,467	25,827	24,727	27,879
Purchase of FA and Capex	-2,579	-5,571	-5,890	-6,216
Others	1,370.00	- 403.80	- 54.75	51.93
Cash flow from investing activities	-1,209	-5,975	-5,945	-6,164
Other fin. Activities	-	-	-	-
Dividend paid, including div. tax	-13,631	-7,978	-8,083	-8,188
Cash flow from financing activities	-26,695	-8,000	-8,105	-8,210
Exchange Fluctuations	138	138	138	138
Net Cash Flow	-5,437	11,852	10,676	13,505
Opening Cash balance	17,472	12,173	24,163	34,977
Closing Cash balance	12,173	24,163	34,977	48,620

Key Ratios (Consolidated)

Particulars	FY23	FY24E	FY25E	FY26E
EPS (INR)	58.2	60.5	64.3	68.2
Book Value	183.2	223.8	268.0	315.9
DPS	17.5	17.5	17.5	17.5
Payout %	57%	32%	30%	29%
Dividend Yield %	1.2	1.2	1.2	1.2
P/E	25.7	24.7	23.2	21.9
EBIT Margin (%)	21.1%	21.3%	21.5%	21.6%
EBIT Margin	18.2%	19.0%	19.5%	19.6%
PBT Margin	22.7%	22.7%	22.8%	22.9%
Adjusted PAT Margin	16.4%	16.4%	16.5%	16.5%
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	2.0	2.3	2.6
ROE	31.8%	27.0%	24.0%	21.6%
ROCE	24.6%	22.6%	21.5%	20.0%

Source: Arian Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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